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Key audit matters: A research on listed firms in CEE countries and Turkey

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Abstract: This study aims to identify and analyze the most significant matters (key audit matters) in auditing highlighted in auditors' reports of companies in the manufacturing sector and to determine whether there is a divergence or convergence between the CEE countries and Turkey. Three CEE countries were chosen according to their economic development levels (Romania, Poland and the Czech Republic). Audit reports of the firms listed in stock exchange examined and analyzed for the year ended in 2017 by frequency and cross-table analysis. When the manufacturing sector is considered as a whole, both key audit matters (KAMs) sub-headings and the average number of KAMs showed the most similarity in Turkey and Poland. In a more specific assessment, Turkey bears a resemblance to both Poland and Romania in the "fabricated metal production" sub-sector. The most notable difference in terms of KAMs sub-headings between Turkey and two of the CEE countries (Poland and Romania) is "going concern."

JEL Classifications: M42, O52

Keywords: Key audit matters, listed companies, CEE countries, Turkey, manufacturing sector
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1. Introduction

Independent audits give rise to confidence in financial statements and thus contribute to the development of capital markets. Financial crises in recent years have shown that the welfare of the economy depends on reliable financial information and audits (Brenninkmeijer, Moonen, Debets, & Hock, 2018).

Confidence in independent auditing and independent auditors has been lost following accounting scandals that resulted in financial crises and corporate bankruptcies, as many of the bankrupt companies received an unmodified opinion in their reports (Asare & Wright, 2012; Doogar, Rowe, & Sivadasan, 2015; Sikka, 2009; Ruhnke & Schmidt, 2014; Yanık & Karataş, 2017). Financial crises have led to questioning the role of the auditor and the suitability of audit reports. The need for a global financial system has led to the reorganization of the requirements of accounting and auditing processes that determine the reliability of financial information. Independent auditors' reports, which are the output of the independent audit process, are important in terms of acting as a communication channel between the audited company and stakeholders and are crucial for economies (Abdolmohammadi & Tucker, 2002). Regulatory bodies such as the Center for Audit Quality (CAQ), the European Commission (EC), the International Auditing and Assurance Standards Board (IAASB), the Public Company Accounting Oversight Board

(PCAOB), and the United Kingdom's Financial Reporting Council (FRC) have started initiatives to improve the auditor reporting model (Köhler, Ratzinger- Sakel, & Theis, 2016).

In Europe, the European Parliament and the Council for member states prepared new proposals for statutory audits that would increase the transparency of the audit report and improve trust in the audit profession (EU, 2011). The European Union introduced two pieces of legislation to address the need for audit reforms. These are Directive 2014/56/EU2 on statutory auditing, amending Directive 2006/43/EC, and Regulation (EU) No 537/2014 on specific requirements regarding statutory audits of public interest entities. These regulations were adopted on 16 April 2014, and they entered into force on17 June 2016.

These regulations set a series of new requirements related to audit reports. One of the striking requirements is to include the critical judgments of the auditor made during the audit process in order to enhance investors' understanding of the audit process. According to the Regulation, auditors must provide a description of the most significant assessed risks of material misstatement, including any due to fraud; a summary of the auditor's response to those risks; and, where relevant, key observations arising with respect to those risks. Starting from the financial year 2017, audit reports of listed companies and public interest entities (PIEs) have to include these matters. The main sources of EU regulations are the International Accounting/Financial Reporting Standards (IASs/IFRSs) and International Standards on Auditing (ISAs), so these regulations are frequently in line with IASs/IFRSs and ISAs(KPMG, 2016).

In order to comply with the requirements of the Directive and Regulation, member states had to adopt the Directive and most provisions of the Regulation by transposing them into their national legislation. Turkey also transposes IASs/IFRS and ISAs into its national legislation by the force of the Public Oversight, Accounting and Auditing Standards Authority. The auditing process has to be performed according to ISAs for listed companies.ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report", which is related to communicating key audit matters (KAMs), came into effect in 2017.

Most of the academic studies on KAMs are related to its effects on auditors' responsibility, investors' reaction, and market reaction. Content analysis studies of the KAMs section are done by audit firms and accounting organizations with small samples and generally in one country. We could not find any content analysis studies in the literature review of a KAMs section in Europe. Central and Eastern Europe (CEE) and Turkey are a unique group of emerging economies; they are close geographically and have similar institutional setups (European Investment Bank, 2013). Therefore, we select Turkey and CEE countries, which are economically similar. According to the level of economic development, Romania Poland and the Czech Republic are the top three countries among Central and Eastern Europe (CEE) countries as well as they are the member of EU (Statistics Times, 2019). Turkey, which is outside the EU area but has aspirations for integration into the European Union.

This study aims to identify and analyze the most significant matters in auditing (KAMs) highlighted in auditors' reports of companies in the manufacturing sector by frequency and cross-table analysis and to determine whether there is a divergence or convergence between the three CEE countries and Turkey. Listed companies are subject to statutory auditing regardless of their field of activity and size; data of the listed companies are accessible as well. Hence, listed companies are suitable for comparison (see Section 2). The manufacturing sector is analyzed due to its high number of companies and sub-sectors. Two main themes are taken into consideration as indicators of differentiation. The first is the number of sub-headings, and the second is KAMs sub-headings. The number of sub-headings is examined according to the countries and sub-sectors, audit firms and audit opinions. KAMs sub-headings are examined according to the presentation frequency and order by country.

For the purpose, audit reports of stock-exchange-listed firms in the four countries examined for the year ended 31 December 2017. As the sector and sub-sector classifications of the stock exchanges in the four countries are different, Turkey's stock exchange (BIST) classification was taken into consideration for the other countries to ensure comparable analysis.

The layout of the paper is as follows. Section 2 determines existing accounting and auditing regulations and the scope of the PIE definition by countries that are subject to statutory auditing. Section 3 examines academic studies on communicating key audit matters and reports of accounting firms and presents the hypotheses. Section 4 discusses the data collection method and how the collected data were prepared for comparative analysis. Section 5 reveals the results and discussion. Section 6 clarifies the limitations, and Section 7 describes the study's contribution.

2. Accounting, auditing regulations and scope of public interest entities by country

Poland and the Czech Republic have been EU member states since 2004, and Romania has been since 2007. These countries are subject to the EU's ISAs Regulation, adopted in 2002. The Regulation requires the application of IASs/IFRSs for consolidated financial statements of companies whose securities trade in a regulated securities market. While Romania and Poland require the use of IFRSs in the consolidated financial statements of banks and other credit institutions, whether or not their securities trade in a regulated securities market, the Czech Republic only requires the use of IFRSs for banks and other financial institutions trading on a regulated market (Pacter, 2017). According to the EU Regulation, auditors have to provide a description of the most significant assessed risks of material misstatement and a summary of the auditor's response to those risks, in line with ISA 701.

Regulations of the Capital Markets Board of Turkey regarding accounting and auditing have been compatible with international accounting standards and international audit standards since 2005. The Public Oversight, Accounting and Auditing Standards Authority was established in Turkey in 2011, and since then, all accounting and auditing activities have been conducted by the Authority. Published accounting and auditing standards are compatible with international accounting standards and international audit standards. In short, Turkey follows international regulations and developments in the field of accounting and auditing.

The definition of public interest entities (PIE) has become crucial to determining the entities that are subject to statutory auditing within the scope of Regulation (EU) No. 537/2014. In the EU, the most recent definition of PIE is included in Directive 2014/56/EU. Public interest entities, in substance, means entities governed by the law of a member state whose transferable securities are admitted to trading on a regulated market of that Member State, credit institutions, insurance undertakings, and entities that are designated as PIE by member states. Such entities are determined to be PIE, for instance, because the nature of their business has significant public relevance, their size, or their number of employees. The last part of the definition permits member states to broaden the scope of entities that are subject to statutory auditing.

Table 1 shows the scope of PIEs for each country.

TABLE 1. SCOPE OF PIE DEFINITION BY COUNTRIES

COUNTRY	EXTENT OF THE EU DEFINITION				OTHER DESIGNATED ENTITIES ON NATIONAL LEVEL							
	Listed entities	Credit institutions	Insurance undertaking	Other designated entities	Pension funds	Investment companies	Size criterion	State-owned companies	Government	Asset management companies	Electronic money institutions	Other
Poland	x	x	x	x	x	x					x	X
Romania	x	x	x	X	x	x		x	x		x	X
Czech Republic	x	x	x	X	x	x	x					
Turkey	x	x	x	X	x	x	x	x	x	x	x	X

Source: Accountancy Europe, 2019; KGK,2016

As seen in Table 1, Turkey has the most comprehensive regulations in terms of entities that are subject to statutory auditing. Romania, Poland, and the Czech Republic follow Turkey, respectively.

As all of the EU members transpose EU legislation into their own legislation, countries examined in this study require that all listed companies prepare their financial statements in accordance with IFRS and be audited in accordance with ISAs or EU regulations. KAMs must be reported according to both sets of regulation. While the wording in the EU text is not the same as in ISA 701, for KAMs, the outcome can generally be expected to be the same. Due to the fact that the concept of "identifying and assessing risks of material misstatements "that is used in the EU text comes from the ISA, audits of these financial statements should be made in line with ISAs (Accountancy Europe, 2015).

3. Literature review

KAMs are items that were most significant in the audit of the current-period financial statements according to the auditor's professional judgment. KAMs are selected from matters communicated with those charged with governance (ISA 701, par. 7). It is evident that the auditors have to make assessments regarding auditing subjects specific to the entity in which the audit is carried out in order to determine KAMs.

In addition, the audit reports are expected to be firm-specific. The new reporting model is aimed at eliminating the gap between investors and auditors (Kostova, 2016; Gold, Gronewold, & Pott, 2012; Ruhnke & Schmidt, 2014). Thus, it aims to increase the quality of independent auditor reports; especially the information and communication value (Cora, Mock, Turner, & Gray, 2011).

This development of the audit reports has thus attracted a great deal of interest among academicians, and studies have been conducted on how ISA 701 will deliver the intended benefits and how it will affect auditors, investors, and other stakeholders.

In general, academic research concentrates on jurors' assessment of auditors' liability (Backof, Bowlin, & Goodson, 2014; Brasel, Doxey, Grenier, & Reffett, 2016; Brown, Majors, & Peecher, 2015), effects on auditors' responsibility (Kachelmeier, Schmidt, & Valentine, 2014; Dogan & Arefaine, 2017), the reaction of capital markets (Lennox, Schmidth, & Thompson, 2018), and effects on investors' decision making process (Christensen, Glover, & Wolfe, 2014; Köhler et al., 2016).

Djaduerpour & Larsson (2014) state that new audit reports stemming from the amendments introduced by IAS 701will reduce the expectation gap through the presentation of additional information and auditor judgments on the audit process. However, they emphasize that any new information presented should be well reviewed and that the language used in the presentation should be considered. Backof et al. (2014) also found that the degree to which the disclosure of KAMs influences jurors' decision-making processes depends on the level of auditor disclosure and the presence of clarifying language. Brown et al. (2015) declared that critical audit matters could decrease auditors' legal exposure. Brasel et al., (2016) found no evidence that KAMs increase the likelihood of juror negligence assessments. However, they came across some evidence that KAMs do reduce the likelihood of juror negligence assessments. The results of the study, consistent with decision affect theory, show that negative reactions to the auditors are reduced by KAMs disclosures.

Kachelmeier et al. (2014) did not find a statistically significant difference regarding perceived auditor responsibility or liability for a misstatement discovered in an area disclosed as a KAM when compared to either of the control conditions with no KAMs identified. It does, however, make auditors more vulnerable to the risk of customer loss due to litigation in connection with the confidentiality obligation and the disclosure of unwanted information (Nelson, 2014; Dogan & Arefaine, 2017).

According to Vanstraelen et al. (2011), auditors want to make explanations about KAMs in a way that does not exceed the confidentiality obligation. On the other hand, the auditors fear that statements auditors might make in order to meet the standards may be more than necessary. Lennox et al. (2018) stated that auditors may choose to use standard language that is not very informative in order to terminate the relationship with the client or to protect themselves from the risks of litigation. In such cases, independent audit reports may not be as beneficial as expected. Lennox et al. (2018) discovered that with respect to aggregated market reactions, investors do not find the expanded information in auditors' reports informative.

However, Christensen et al. (2014) detected that individual investors who receive a KAMs section are more likely to change their investment decisions than investors who receive a standard audit report. Similarly, Czerney, Schmidt, & Thompson (2014) and Sirois, Bédard, & Bera (2017) indicate that the KAMs section and disclosures in audit reports are taken into account by investors. Köhler et al. (2016) notice that investment professionals and non-professional investors react differently to KAMs sections. Investment professionals assess the economic situation of the company significantly better, but the KAMs section has no communicative value for non-professional investors. On the other hand, Lundgren & Oldenborg (2016) discovered that the structure of new auditor reports and KAMs are perceived positively by young, non-professional investors, and the use of reports will increase. Kipp (2017) pointed out that an increase in disclosure detail results in higher levels of confidence and a significant increase in non-professional investors' assessments of audit quality.

The implementation of KAMs was first adopted in the UK by the Financial Reporting Council (FRC) beginning with the financial year ending on 30 September 2013.In the first year, 650 KAMs were reported in 153 audit reports, and "management override controls" and "fraud in revenue recognition" were two common sub-headings (Masdor & Shamsuddin, 2018). Reid, Carcello, Li, & Neal, (2015) studied the effects of changes in audit report quality and showed that the UK's new reporting regime is associated with an improvement in audit quality.

Other research that is similar in purpose to this study has generally been conducted by accounting firms. The samples and findings of such studies are illustrated in the Table 2. "KAM 1" indicates the most common KAMs sub-heading in audit reports, KAM 2 indicates KAMs sub-heading in the second order according to the presentation frequency, so on.

TABLE 2. RESEARCH ON KEY AUDIT MATTERS

COUNTRY	KAM 1	KAM 2	KAM 3	KAM 4
Singapore (PWC,2017 b)	Valuation of loans and receivables	Revenue recognition (not fraud)	Impairment of goodwill and intangible assets	Valuation of PPE
Singapore (ACCA, 2017)	Impairment of receivables	Valuation of inventories	Revenue recognition (not fraud)	Impairment of goodwill and other intangible assets
UK (PWC,2017 b)	Impairment of Assets	Taxation	Impairment of goodwill	Management override controls
Australia (KPMG, 2017)	Goodwill and intangibles	Acquisition	Revenue	Taxation
New Zealand (XRB and FMA, 2017)	Impairment of goodwill and other intangible assets	Valuation of PPE	Revenue recognition	Investment related entities
Hong Kong (PWC, 2017 a)	Impairment of loans and receivables	Impairment of goodwill and intangible assets	Property valuation and impairment	Revenue recognition
Switzerland (Deloitte, 2017)	Goodwill and intangibles assets	Revenue recognition	Taxation	Provisions
Malaysia (ACCA, 2018b)	Revenue recognition (not fraud)	Impairment of receivables	Impairment of goodwill and intangible assets	Valuation of inventories
Brazil, Cyprus, Kenya, Nigeria, Oman, Romania, South Africa, the UEA and Zimbabwe (ACCA,2018a)	Assets impairment (other than Goodwill)	Revenue (not mentioning fraud)	Allowance for doubtful debt	Goodwill impairment
Turkey (Gökgöz, 2018)	Revenue	Trade receivables	Inventories	Tangible assets
Turkey (Kavut and Güngör, 2018)	Revenue	Goodwill impairment	Trade receivables	Inventories

Source: Own literature review.

In most of the studies presented in Table 2, KAMs sub-headings were examined regardless of the sector in which they operate. Therefore, the results do not reflect any sector characteristics. In addition, the different results of research done in the same country stem from the sample.

The colors of Table 2 show that similar KAMs sub-headings are presented in different countries, and there are a few complex accounting matters, as sub-headings show that auditors are selecting KAMs based on their relative audit effort. Some sub-headings are related to sectors like "acquisition" and complex systems of the country like "taxation" (KPMG, 2017). These results also show that the KAMs section is able to reflect sector-specific and country-specific factors. In this study, all companies in the manufacturing sector of four countries are taken into consideration, and sample differentiation is eliminated. Except for enterprises, differences will, therefore, be influenced by country-specific factors such as the economic structure of each country, the depth of the capital markets, and the auditing environment.

On the other hand, there are also concerns that the new standard ISA 701 will not provide the expected benefit (Lennox et al., 2018; Vanstraelen et al., 2011). Auditors develop sector specialization to achieve production economies and to become efficient (Craswell, Francis, & Taylor, 1995). Big Four accounting firms are organized internationally and have knowledge sharing procedures as well (Francis & Wang, 2008). These factors also raise a concern about standardization of the KAMs section. However, according to the ISA 701, it is expected that the number of KAMs, the selection of the sub-headings discussed, and the manner in which they will be presented will differ in terms of the firm and auditing process. The reports of the accounting firms also show that the auditors select KAMs based on audit effort and that KAMs reflect specific sub-headings according to the sector and country. Therefore, the hypotheses of the study are as follows:

H_1: The number of sub-headings varies by country according to the sub-sector.

H_2: The distribution of KAMs sub-headings and the presentation order of sub-headings vary by country and sub-sector.

4. Data collection and methodology

There are 400 companies in Turkey listed on the Borsa Istanbul (BIST), and they are classified into 13 different sectors. Of the companies listed on the BIST, 44.3% are operating in the manufacturing sector. The reason for choosing the manufacturing sector in this study is that most companies are in this sector. The manufacturing sector consists of nine sub-sectors (Table 3). Auditor reports for a total of 179 companies operating in the manufacturing sector were examined for the period ending 31st of December 2017. The data of the companies and audit reports were obtained from the Public Disclosure Platform (KAP) website (KAP, 2018). Ultimately, 177 companies were analyzed due to a lack of data on two companies.

A total of 463 companies in Poland are listed on the Warsaw Stock Exchange (GPW) and are classified into 42 different sectors (GPW, 2019). However, the GPW sector classification is different from the BIST classification. The GPW does not include a manufacturing sector. Therefore, in this study, GPW companies were grouped in the manufacturing sector by taking into consideration Turkey's BIST manufacturing sub-sector classification. Companies listed on the GPW are divided into five sub-sectors (see Table 5). It is determined that 128 companies are operating in the manufacturing sector, and 94 of these companies were analyzed due to an inability to access audit reports and web sites of 34.

In Romania, on the Bucharest Stock Exchange (BVB), a total of 380 companies are listed in 17 different sectors (BVB, 2019). Sector classification in the BVB is the same as the classification in the BIST, and 177 companies are listed in the manufacturing sector. However, there are no sub-sector classifications in the BVB. Company profiles were examined, their fields of activity were determined, and companies in the manufacturing sector were classified into six sub-sectors according to the BIST classification and harmonized for analysis. Forty-two companies listed in the main segment were included in the classification; 38 companies were found suitable for analysis because four companies were suspended (see Table 5).

In the Czech Republic, on the Prague Stock Exchange (PSE), a total of 52 companies are listed (PSE. 2019), and the sectoral classification is different from the BIST classification in Turkey. Nine companies were determined to be operating in the manufacturing sector, and they were categorized into three sub-sectors (see Table 5).

KAMs sub-headings are classified into a total of 28 items that were determined through grouping similar content and titles as presented in Table 3. Classification of KAMs sub-headings is based on auditors' reports of companies in Turkey since this study aims to compare Turkey with three CEE countries.

TABLE 3. KEY AUDIT MATTERS

1	Audit of the financial statements for the first time	16	Goodwill
2	Biological cost	17	Intangible assets
3	Borrowing cost	18	Inventories
4	Business combinations	19	Investment properties
5	Change of auditor	20	Operating and Finance Lease
6	Construction contracts	21	Other KAM
7	Current tax	22	Provisions and contingent liabilities
8	Deferred tax	23	Related parties
9	Derivatives	24	Revenue
10	Development cost	25	Sales deductions
11	Employee benefits	26	Tangible assets
12	Equity method investments	27	Trade receivables
13	Finance lease receivables	28	Trade payables
14	Financial investments		
15	Financial liabilities		

Source: Own elaboration.

In the study, the audit firms are considered as in Table 4 according to audit network.

TABLE 4. AUDIT NETWORK CLASSIFICATION BY SCOPE

CLASSIFICATION OF AUDIT NETWORK	SCOPE
Big Four accounting firms	PWC, KPMG, Deloitte, EY
Other firms	International accounting firms (BDO, Mazars, etc.), corporation with international accounting firms except for big four accounting firms and local firms

Source: Own classification.

5. Findings and discussion

In this section, general findings and findings related to the hypotheses are presented.

5.1. General findings

The aim of this section is to reveal the structure of the manufacturing sector firms and auditing market according to the country. As previously stated, the manufacturing sector is classified into sub-sectors according to Turkey's BIST.

Table 5 shows the distribution of the 318 companies analyzed in the study by country and sub-sector.

TABLE 5.DISTRIBUTION OF COMPANIES IN MANUFACTURING SECTOR BY COUNTRY AND SUB-SECTORS

SUB-SECTOR	COUNTRY			
	CZECH REPUBLIC	POLAND	ROMANIA	TURKEY
	Valid percent	Valid percent	Valid percent	Valid Percent
Basic metal industries	-	-	-	9,6
Chemicals, petroleum rubber and plastic products	-	13,8	23,7	18,1
Fabricated metal products, machinery and equipment	22,2	38,3	55,3	17,5
Food, beverage and tobacco	55,6	17,0	2,6	15,8
Non metallic mineral products	-	-	13,2	15,3
Paper and paper products, printing and publishing	-	4,3	2,6	7,9
Textile, wearing apparel and leather	-	26,6	2,6	11,3
Wood products including furniture	-	-	-	2,8
Other manufacturing industry	22,2	-	-	1,7
Total	100,0	100,0	100,0	100,0

Source: Calculated by authors.

In Table 5 it is seen that in Turkey, 18.1% of the manufacturing sector companies operate in the "chemicals, petroleum rubber, and plastic products" sub-sector, 17.5% in the "fabricated metal products, machinery, and equipment" sub-sector and 15.8% in the "food, beverage and tobacco" sub-sector. The sub-sector in Turkey with the fewest companies is "wood products including furniture" with 2.8%.

In Romania, 55.3% of the companies in the manufacturing sector operate in the "fabricated metal products, machinery, and equipment" sub-sector, and 23.7% in the "the chemicals, petroleum rubber, and plastic products" sub-sector. There are no Romanian companies in the manufacturing sector operating in "basic metal industries" or "wood products including furniture".

In Poland, 38.3% of the companies in the manufacturing sector operate in the "fabricated metal products, machinery, and equipment" sub-sector, and 26.6%in the "textile, wearing apparel, and leather" sub-sector. No companies in Poland operate in the "basic metal industries", "non-metallic mineral products", or "wood products including furniture" sub-sectors.

The manufacturing sector in the Czech Republic is considered to have only three sub-sectors and more than half of the companies operate in the "food, beverage, and tobacco" sub-sector.

The distribution of firms that carry out company audit activities by country is given in Table 6.

TABLE 6. ACCOUNTING FIRMS BY COUNTRY

COUNTRY	BIG FOUR ACCOUNTING FIRMS	OTHER FIRMS	TOTAL
Czech Republic	100,0%	-	100,0%
Poland	40,4%	59,6%	100,0%
Romania	34,2%	65,8%	100,0%
Turkey	50,8%	49,2%	100,0%
Total	47,2%	52,8%	100,0%

Source: Calculated by authors.

TABLE 7. BIG FOUR ACCOUNTING FIRMS AND OTHER FIRMS DISTRIBUTION BY COUNTRY AND SUB-SECTOR

SUB-SECTOR	COUNTRY	BIG -FOUR ACCOUNTING FIRMS	OTHER FIRMS	TOTAL
Fabricated metal products, machinery and equipment	Poland	50,0%	50,0%	100,0%
	Romania	23,8%	76,2%	100,0%
	Turkey	61,3%	38,7%	100,0%
	Czech Republic	100,0%	-	100,0%
Food, beverage and tobacco	Poland	31,3%	68,8%	100,0%
	Romania	-	100,0%	100,0%
	Turkey	35,7%	64,3%	100,0%
	Czech Republic	100,0%	-	100,0%
Chemicals, petroleum rubber and plastic products	Poland	53,3%	46,7%	100,0%
	Romania	66,7%	33,3%	100,0%
	Turkey	56,3%	43,8%	100,0%
Paper and paper products, printing and publishing	Poland	50,0%	50,0%	100,0%
	Romania	100,0%	-	100,0%
	Turkey	71,4%	28,6%	100,0%
Textile, wearing apparel and leather	Poland	21,7%	78,3%	100,0%
	Romania	-	100,0%	100,0%
	Turkey	20,0%	80,0%	100,0%
Non metallic mineral products	Romania	20,0%	80,0%	100,0%
	Turkey	74,1%	25,9%	100,0%
Other manufacturing industry	Turkey	33,3%	66,7%	100,0%
	Czech Republic	100,0%	-	100,0%
Basic metal industries	Turkey	41,2%	58,8%	100,0%
Wood products including furniture	Turkey	20,0%	80,0%	100,0%

Source: Calculated by authors.

Table 6 shows that the audit activities of all nine companies in the Czech Republic manufacturing sector are carried out by Big Four accounting firms. For the other countries, the percentages are 50.8% of the companies in Turkey, 40.4% in Poland, and 34.2% in Romania are carried out by Big Four accounting firms. The Czech Republic can be distinguished from other countries due to the lack of Big Four accounting firms in the audit market. The distribution of Big Four and other firms is balanced in Turkey, and the structure of the market is closer to that of Poland than that of Romania.

Table 7 shows the detailed distribution of Big Four accounting firms and other firms that carry out audit activities by country and sub-sector.

Since audits of all companies are carried out by Big Four accounting firms in the Czech Republic, the Czech Republic is not included in the comparison of countries in Table 7. Audits of all companies in the "paper and paper products, printing and publishing" sub-sector in Romania are carried out by Big Four accounting firms. Also, the audits of most of the companies in the sub-sectors of "chemicals, petroleum products" as well as "paper and paper products, printing, and publishing" are carried out by Big Four accounting firms in Poland, Romania, and Turkey.

In the sub-sectors in which Poland, Romania, and Turkey operate together, the auditing market distribution is more similar between Turkey and Poland than other countries, as with the general market distribution.

The distributions of the types of auditor opinion by country are shown in Table 8.

TABLE 8. TYPES OF AUDITOR OPINION BY COUNTRY

COUNTRY	UNQUALIFIED OPINION	QUALIFIED OPINION	DISCLAIMER OPINION	TOTAL
Poland	96,8%	1,1%	2,1%	100,0%
Romania	86,1%	13,9%	-	100,0%
Turkey	89,8%	9,6%	,6%	100,0%
Czech Republic	100,0%	-	-	100,0%

Source: Calculated by authors.

According to Table 8, no audit reports include adverse opinion in the manufacturing industry in any country. While the audit reports of all companies were given an unqualified opinion in the Czech Republic, audit reports in other countries were given qualified and disclaimer opinions as well as qualified opinions. Romania is the country in which most of the audit reports were given an unqualified opinion while in Poland a disclaimer opinion dominated.

5.2. Number of KAMs sub-headings

This section analyzes the distribution and the average number of KAMs sub-headings according to country and sub-sector.

5.2.1. Distribution and average number of KAMs sub-headings by country and sub-sector

Distribution of the number of KAMs sub-headings by country is given in Table 9.

The number of KAMs sub-headings reported in the auditors' reports ranges from zero to six. Romania is the country with the highest percentage (13.2%) of audit reports in which any KAMs was reported. In the Czech Republic, while KAMs were reported in all of the auditor's reports, a maximum of five sub-headings was reported. In Poland and Turkey, the maximum number of KAMs sub-headings in an audit report is six. In Romania, the percentage of audit reports with only one KAM sub-heading is the highest, while two KAMs sub-headings lead in Poland and Turkey and three KAMs sub-headings is the maximum in the Czech Republic.

TABLE 9. DISTRIBUTION OF THE NUMBER OF KAMS SUB-HEADINGS BY COUNTRY

COUNTRY	None	1 sub-heading	2 sub-headings	3 sub-headings	4 sub-headings	5 sub-headings	6 sub-headings	Total
Poland	2,1%	25,5%	40,4%	22,3%	6,4%	2,1%	1,1%	100,0%
Romania	13,2%	28,9%	21,1%	23,7%	10,5%	-	2,6%	100,0%
Turkey	5,6%	30,5%	37,9%	16,9%	4,5%	3,4%	1,1%	100,0%
Czech Republic	-	11,1%	11,1%	44,4%	11,1%	22,2%	-	100,0%
Total	5,3%	28,3%	35,8%	20,1%	6,0%	3,1%	1,3%	100,0%

Source: Calculated by authors.

Table 9 shows that most of the auditors' reports disclose one to three KAMs sub-headings. The distribution in Turkey is closer to that in Poland than that in Romania.

The average number of KAMs sub-headings by country and sub-sector is given in Table 10.

According to Table 10, in the "fabricated metal products, machinery, and equipment" sub-sector, the average number of KAMs sub-headings is 2.25 in Poland and Turkey, two in Romania, and four in the Czech Republic. The average number of KAMs sub-headings in the "food, beverage, and tobacco" sub-sector is the lowest in Turkey with 1.75, in Romania it is two, on average, in Poland over two, and in the Czech Republic, it is three. In the "chemicals, petroleum, rubber, and plastic products" sub-sector, the average number of KAMs is 1.78 in both Turkey and Romania while in Poland it is 2.06. In the "paper products, printing, and publishing" sub-sector the average number of KAMs is two in both Romania and Turkey and 1.5 in Poland.

The "textile, wearing apparel, and leather" sub-sector in Turkey has the lowest KAMs reporting with a 1.8 average number of KAMs. Romania is the highest KAMs reporting country with three, on average. In the "non-metallic mineral products "sub-sector, only companies from Turkey and Romania are operating, and the average numbers of KAMs in both countries are close to each other. In the "other manufacturing" sub-sector, companies from Turkey and the Czech Republic are discussed. However, the wide range of activities of the companies in this sub-sector precludes analyzing the KAMs in a significant manner. Both in the "basic metal industries" and "wood products including furniture" sub-sectors, companies from Turkey are operating. In these sectors, the average number of KAMs is 2.29 and 1.8, respectively.

TABLE 10.AVERAGE NUMBER OF KAMS SUB-HEADINGS BY COUNTRY AND SUB-SECTOR

SUB-SECTOR	COUNTRY	MEAN
Fabricated metal products, machinery and equipment	Czech Republic	4
	Poland	2,25
	Romania	2
	Turkey	2,25
Food, beverage and tobacco	Czech Republic	3
	Poland	2,13
	Romania	2
	Turkey	1,75
Chemicals, petroleum rubber and plastic products	Poland	2,06
	Romania	1,78
	Turkey	1,78
Paper and paper products, printing and publishing	Poland	1,5
	Romania	2
	Turkey	2
Textile, wearing apparel and leather	Poland	2,22
	Romania	3
	Turkey	1,8
Non metallic mineral products	Romania	2,2
	Turkey	2,15
Other manufacturing industry	Czech Republic	3
	Turkey	2,33
Basic metal industries	Turkey	2,29
Wood products including furniture	Turkey	1,8

Source: Calculated by authors.

5.2.2. Distribution and average number of KAMs sub-headings by accounting firm and audit opinion

The average number of KAMs sub-headings according to audit firm is given in Table 11.

TABLE 11. THE AVERAGE NUMBER OF KAMS SUB-HEADINGS BY BIG FOUR ACCOUNTING FIRMS AND OTHER FIRMS

COUNTRY	BIG FOUR ACCOUNTING FIRMS	OTHER FIRMS
Czech Republic	3,22	-
Poland	1,95	2,33
Romania	1,69	2,16
Turkey	1,85	2,12

Source: Calculated by authors.

Table 11 shows that the Big Four accounting firms report fewer KAMs sub-headings than other firms in all countries except the Czech Republic. In addition, Big Four accounting firms have never reported six sub-headings.

The distribution of accounting firms and the number of KAMs sub-headings by country and type of opinion are given in Table 12.

TABLE 12. DISTRIBUTION OF NUMBER OF KAMS SUB-HEADINGS AND AUDIT FIRM BY COUNTRY AND TYPE OF OPINION

KIND OF OPINION	COUNTRY	DISTRIBUTION							ACCOUNTING FIRMS	
		None	1 Sub-heading	2 Sub-headings	3 Sub-headings	4 Sub-headings	5 Sub-headings	6 Sub-headings	Big Four accounting firms	Other firms
Unqualified opinion	Poland	1,1%	24,2%	41,8%	23,1%	6,6%	2,2%	1,1%	41,8%	58,2%
	Romania	12,9%	32,3%	19,4%	22,6%	9,7%	-	3,2%	32,3%	67,7%
	Turkey	3,1%	32,1%	37,1%	18,9%	4,4%	3,1%	1,3%	54,7%	45,3%
	Czech Republic	-	11,1%	11,1%	44,4%	11,1%	22,2%	-	100,0%	-
Qualified opinion	Poland	-	100,0%	-	-	-	-	-	-	100,0%
	Romania	-	-	40,0%	40,0%	20,0%	-	-	40,0%	60,0%
	Turkey	23,5%	17,6%	47,1%	-	5,9%	5,9%	-	17,6%	82,4%
Disclaimer opinion	Poland	50,0%	50,0%	-	-	-	-	-	-	100,0%
	Turkey	100,0%	-	-	-	-	-	-	-	100,0%

Source: Calculated by authors.

According to Table 12, in auditors' reports given an unqualified opinion, two sub-headings reported most in Poland and Turkey, one sub-heading in Romania, and three sub-headings in the Czech Republic.

In auditors' reports given a qualified opinion, one sub-heading was reported in Poland, two to three sub-headings in Romania, and mostly two sub-headings in Turkey. A disclaimer opinion was only given in Poland and Turkey; in Poland, one sub-heading was reported in the auditor report. However, in the case of a disclaimer opinion, the auditor's report should not include KAMs section according to ISA 705 (par.29).

In addition, when the distribution of type of opinion by audit firm is examined, all of the audit firms in Poland that offer a qualified opinion are "other firms". Other firms give mostly qualified opinions in Romania and Turkey. It is noteworthy that Big Four accounting firms gave no disclaimer opinions.

The number of KAMs sub-headings changes according to the sub-sector and country, audit network, and audit opinion. H_1 is accepted according to the results.

5.2.3. Distribution of KAMs sub-headings and order of sub-headings by country

This section presents the distribution of KAMs sub-headings according to country and sub-sector and the order of KAMs sub-headings by country.

The distribution of KAMs sub-headings by country is given in Table 13.

TABLE 13.DISTRIBUTION OF KAMS SUB-HEADINGS BY COUNTRY

KAMS SUB-HEADINGS	CZECH REPUBLIC	POLAND	ROMANIA	TURKEY
Audit of the financial statements for the first time	-	3,50%	-	-
Biological assets	-	2,00%	-	0,29%
Borrowing cost	-	-	-	1,76%
Business combinations	3,03%	8,50%	3,57%	3,82%
Change of Auditor	-	-	-	2,06%
Construction contracts	-	0,50%	1,19%	0,59%
Current tax	3,03%	-	1,19%	0,59%
Deferred tax	3,03%	4,50%	8,33%	4,41%
Derivatives	3,03%	1,00%	-	1,47%
Development cost	3,03%	2,50%	-	0,88%
Employee benefits	-	0,50%	-	1,47%
Equity method investments	-	-	-	0,88%
Financial investments	-	-	-	0,29%
Financial liabilities	3,03%	-	-	3,24%
Financial loans	-	-	-	0,29%
Goodwill	15,15%	4,00%	2,38%	3,82%
Intangible assets	9,09%	3,50%	-	1,18%
Inventories	-	13,50%	14,29%	11,18%
Investment properties	-	0,50%	1,19%	4,12%
Operating and finance lease	-	-	-	0,29%
Other KAM	15,15%	19,50%	14,29%	1,76%
Provisions and contingent liabilities	9,09%	3,00%	5,95%	3,82%
Related parties	-	1,00%	-	1,47%
Revenue	30,30%	15,50%	23,81%	19,41%
Sales deductions	-	-	-	0,59%
Tangible assets	3,03%	9,00%	13,10%	12,06%
Trade receivables	-	7,50%	9,52%	17,06%
Trade payables	-	-	1,19%	1,18%
Total	100 %	100 %	100%	100%

Source: Calculated by authors.

When the proportional distribution of KAMs sub-headings is examined, revenue is the most reported KAMs in four countries except for the sub-heading "other KAM." "Business combinations," "deferred tax," "goodwill," "provisions and contingent liabilities," and "tangible assets" are the other KAMs sub-headings common to the four countries.

When Table 13 is examined by country, the five most reported KAMs sub-headings are: in the Czech Republic, revenue, goodwill, other KAM, intangible assets, provisions, and contingent liabilities and current tax; in Poland, other KAM, revenue, inventories, tangible assets, business combinations, and trade receivables; in Romania, revenue, inventories, other KAM, tangible assets, trade receivables, and deferred tax; in Turkey, revenue, trade receivables, tangible assets, inventories, and deferred tax. Turkey resembles both Poland and Romania in the sector-based comparison, without considering the presentation order of KAMs sub-headings.

The reason that the "other KAM" sub-heading is among the five most reported KAMs in the Czech Republic, Poland, and Romania is that this sub-heading includes issues that are unique and/or company-specific. In the Czech Republic, this sub-heading includes "project accounting", "restated errors in accordance with IAS 8" and "valuation and completeness of tax information". In Poland it includes "risk of continuing operations", "threat continues the activities of the group", "risk of incorrect valuation of unfinished labor-oriented jobs", "anti-monopoly proceedings in Core West", "diagnosis of forwarding", "going concern", "internal control system", and more. In Romania: risk management and internal controls system, evaluation of going concern, using professional estimates and judgments to prepare and present financial statements, continuity of activity, and so on. In Turkey, the number of KAMs issues included in the other KAM sub-heading is less than it is in other countries.

TABLE 14. KAMS SUB-HEADINGS DISTRIBUTION BY COUNTRY IN THE "FABRICATED METAL PRODUCTS MACHINERY" AND "EQUIPMENT AND FOOD, BEVERAGE AND TOBACCO" SUB-SECTORS

KAMs Sub-headings	Fabricated Metal Products, Machinery and Equipment				Food, Beverage and Tobacco			
	Poland	Romania	Turkey	Czech Republic	Poland	Romania	Turkey	Czech Republic
Audit of the financial statements for the first time	4,94%	-	-	-	-	-	-	-
Biological assets	-	-	-	-	11,76%	-	2,08%	-
Borrowing cost	-	-	1,45%	-	-	-	-	-
Business combinations	7,41%	-	1,45%	-	14,71%	-	6,25%	6,67%
Change of auditor	-	-	2,90%	-	-	-	-	-
Construction contracts	1,23%	2,38%	-	-	-	-	-	-
Current tax	-	-	-	-	-	-	-	6,67%
Deferred tax	3,70%	9,52%	2,90%	-	2,94%	-	-	6,67%
Derivatives	-	-	4,35%	12,50%	2,94%	-	2,08%	-
Development cost	3,70%	-	2,90%	12,50%	-	-	-	-
Employee benefits	-	-	1,45%	-	-	-	-	-
Financial liabilities	1,23%	-	2,90%	12,50%	-	-	2,08%	-
Financial loans	-	-	1,45%	-				
Goodwill	2,47%	2,38%	4,35%	12,50%	2,94%	-	4,17%	13,33%
Intangible assets	2,47%	-	1,45%	-	-	-	-	20,00%
Inventories	13,58%	19,05%	8,70%	-	5,88%	50,00%	20,83%	-
Investment properties	1,23%	-	-	-	-	-	8,33%	-
Other KAM	12,35%	19,05%	-	12,50%	20,59%	-	4,17%	6,67%
Provisions and contingent liabilities	6,17%	4,76%	7,25%	25,00%	-	-	-	6,67%
Related parties	2,47%	-	2,90%	-	-	-	2,08%	-
Revenue	18,52%	21,43%	17,39%	12,50%	23,53%	50,00%	16,67%	26,67%
Sales deductions	-	-	1,45%	-	-	-	-	-
Tangible assets	11,11%	4,76%	13,04%	-	5,88%	-	16,67%	6,67%
Trade payables	-	2,38%	1,45%	-	-	-	4,17%	-
Trade receivables	7,41%	14,29%	20,29%	-	8,82%	-	10,42%	-
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Calculated by authors.

The most important issue in the other KAMs sub-heading is "going concern" in Romania and Poland. In Romania, the opinion given in the audit report in which going concern is reported as a KAMs sub-heading is qualified while it is unqualified in Poland. On the other hand, matters that may cause doubts as to the "going concern" of the company and that require disclosure should be reported in a separate section in audit reports. Although doubts about "going concern" fall within the scope of KAMs because of its nature, its presentation is not to be made in the KAMs section (ISA 701, par. 15). Another remarkable point in the table is the fact that trade receivables are never reported in the Czech Republic.

Distribution of KAMs sub-headings by sub-sector and country is given in Table 14, Table 15, Table 16, Table 17, and Table 18.

As seen in Table 14, in the "fabricated metal products, machinery and equipment" sub-sector common KAMs sub-headings for the four countries are goodwill, provisions, contingent liabilities, and revenue. Common KAMs sub-headings in three of the countries (all except the Czech Republic) are deferred tax, inventories, tangible assets, and trade receivables

TABLE 15. KAMS SUB-HEADING DISTRIBUTION BY COUNTRY IN "CHEMICALS, PETROLEUM RUBBER, PLASTIC PRODUCTS", "PAPER AND PAPER PRODUCTS, PRINTING AND PUBLISHING" AND "TEXTILE, WEARING, APPAREL AND LEATHER"

KAMs SUB-HEADINGS	CHEMICALS, PETROLEUM RUBBER AND PLASTIC PRODUCTS			PAPER AND PAPER PRODUCTS, PRINTING AND PUBLISHING			TEXTILE, WEARING APPAREL AND LEATHER		
	Poland	Romania	Turkey	Poland	Romania	Turkey	Poland	Romania	Turkey
Audit of the financial statements for the first time	3,23%	-	-	-	-	-	3,92%	-	-
Borrowing cost	-	-	-	-	-	3,57%	-	-	-
Business combinations	6,45%	6,25%	5,56%	16,67%	50,00%	-	5,88%	-	2,63%
Change of auditor	-	-	1,85%	-	-	-	-	-	-
Current tax	-	-	-	-	-	3,57%	-	-	-
Deferred tax	6,45%	12,50%	5,56%	-	-	-	5,88%	-	2,63%
Derivatives	3,23%	-	1,85%	-	-	-	-	-	-
Development cost	6,45%	-	1,85%	-	-	-	-	-	-
Equity method investments	-	-	-	-	-	3,57%	-	-	-
Employee benefits	-	-	1,85%	-	-	-	1,96%	-	-
Financial investments	-	-	5,56%	-	-	-	-	-	-
Financial liabilities	-	-	-	-	-	3,57%	1,96%	-	7,89%
Goodwill	9,68%	6,25%	1,85%	-	-	7,14%	3,92%	-	-
Intangible assets	6,45%	-	-	-	-	3,57%	5,88%	-	-
Inventories	3,23%	-	14,81%	33,33%	-	3,57%	21,57%	33,33%	13,16%
Investment properties	-	6,25%	1,85%	-	-	7,14%	-	-	7,89%
Other KAM	29,03%	12,50%	-	33,33%	-	3,57%	21,57%	-	-
Provisions and contingent liabilities	-	12,50%	1,85%	-	-	3,57%	3,92%	-	5,26%
Revenue	3,23%	37,50%	12,96%	16,67%	50,00%	17,86%	11,76%	33,33%	23,68%
Tangible assets	9,68%	6,25%	14,81%	-	-	14,29%	7,84%	33,33%	21,05%
Trade receivables	12,90%	-	27,78%	-	-	25,00%	3,92%	-	10,53%
Total (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Calculated by authors.

When the proportion of KAMs in analyzed by country, the three most reported KAMs sub-headings in Poland are revenue, inventories, and tangible assets; in Romania, revenue, inventories, and trade receivables; in Turkey, trade receivables, revenue, and tangible assets; and in the Czech Republic, provisions and contingent liabilities. Other KAMs sub-headings have equal percentages in the Czech Republic. In addition, revenue, trade receivables, and inventories are common among the first four sub-headings in Poland, Romania, and Turkey.

Revenue is the only common sub-heading in the "food, beverage, and tobacco "sub-sector across all four countries. Common sub-headings in Poland, Romania, and the Czech Republic are business combinations, goodwill, and tangible assets. According to the country, the first three KAMs sub-headings in Poland are revenue, business combinations, and biological assets. There is only one company in the sub-sector in Romania, and the KAMs sub-headings are revenue and inventories. In Turkey, they are inventories, revenue, tangible assets, and trade receivables; and in the Czech Republic, they are revenue and goodwill.

In the Czech Republic, no company operates in the "chemicals, petroleum rubber, and plastic products" sub-sector (see Table 5). Common KAMs sub-headings for the other three countries in the sub-sector are business combinations, deferred tax, goodwill, and revenue. In Poland, trade receivables, tangible assets, and goodwill; in Romania, revenue, provisions, and contingent liabilities; and in Turkey, trade receivables, tangible assets, and revenue are the most reported issues, respectively, in the sub-sector.

In the Czech Republic, no company is operating in the "paper and paper products, printing, and publishing" sub-sector (see Table 5). Revenue is the common KAMs sub-heading in the sub-sector for the other three countries. In Poland, only inventories, revenue, and business combinations were reported in audit reports. Turkey has a wider variety of subjects: the first three KAMs sub-headings there are trade receivables, revenue, and tangible assets. There is only one company in Romania in the sub-sector, and the reported sub-headings are revenue and business combinations.

In the Czech Republic, no companies are operative in the textile, wearing apparel, and leather sub-sector. In this sub-sector, common KAMs sub-headings for the other three countries are inventories, revenue, and tangible asset. The first three KAMs in Poland and Romania are, respectively, inventories, revenue, and tangible assets; and in Turkey they are revenue, tangible assets, and inventories.

Companies operating in the non-metallic mineral products sub-sector (Table 16) are from Romania and Turkey, and common KAMs sub-headings are inventories, provisions, and liabilities for the two countries. The first three KAMs sub-headings reported in Turkey are revenue, tangible assets, and trade receivables. In this subsector in Romania, they are revenue, inventories, and trade receivables.

The only common KAMs sub-heading in the other manufacturing sector (Table 17) is revenue for Turkey and the Czech Republic. This is due to the fact that the companies in the other manufacturing sector are in different fields of activity.

TABLE 16. KAMS SUB-HEADINGS DISTRIBUTION BY COUNTRY IN "NON-METALLIC MINERAL PRODUCTS" SUB-SECTOR

KAMs Sub-headings	Non-Metallic Mineral Products	
	Romania	Turkey
Borrowing cost	-	6,90%
Business combinations	-	5,17%
Change of Auditor	-	6,90%
Construction contracts	9,09%	-
Current tax	-	1,72%
Deferred tax	9,09%	8,62%
Employee benefits	-	5,17%
Equity method investments	-	3,45%
Goodwill	-	6,90%
Intangible assets	-	1,72%
Inventories	18,18%	1,72%
Investment properties	-	3,45%
Other KAM	18,18%	5,17%
Provisions and Contingent Liabilities	9,09%	5,17%
Revenue	18,18%	20,69%
Tangible assets	-	10,34%
Trade receivables	18,18%	6,90%
Total	100%	100%

Source: Calculated by authors.

TABLE 17. KAMS SUB-HEADING DISTRIBUTION IN "OTHER MANUFACTURING INDUSTRY" BY COUNTRY

KAMs sub-headings	Other Manufacturing Industry	
	Turkey	Czech Republic
Business combinations	14,29%	-
Goodwill	-	33,33%
Inventories	14,29%	-
Operating and finance lease	14,29%	-
Other KAM	-	50,00%
Revenue	14,29%	16,67%
Sales deductions	14,29%	-
Trade receivables	28,57%	-
Total	100,00%	100,00%

Source: Own analysis

In the "basic metal industries" and "wood products including furniture" sub-sectors (Table 18), only companies from Turkey operate. The top three sub-headings in the former sub-sector are revenue, trade receivables, and tangible assets, and the top two sub-heading in the latter sub-sector are revenue and inventories.

In Table 19 (see the Appendix), the order of KAMs sub-headings according to the country. KAM 1st indicates the sub-headings, which are presented in the first order in audit reports, KAM 2nd - in the second order, and so on. Table 19 shows the presentation orders of KAMs sub-headings by country.

TABLE 18.DISTRIBUTION OF KAMS SUB-HEADINGS IN "BASIC METAL INDUSTRIES" AND "WOOD PRODUCTS INCLUDING FURNITURE SECTOR" IN TURKEY

KAMs sub-headings	Basic Metal Industries	Wood Products Including Furniture
	Turkey	Turkey
Business combinations	5,26%	-
Construction contracts	2,63%	-
Deferred tax	7,89%	11,11%
Financial liabilities	5,26%	-
Goodwill	2,63%	-
Intangible assets	2,63%	-
Inventories	10,53%	22,22%
Investment properties	5,26%	-
Provisions and contingent liabilities	-	11,11%
Related parties	2,63%	11,11%
Revenue	26,32%	22,22%
Tangible assets	10,53%	11,11%
Trade payables	2,63%	11,11%
Trade receivables	15,79%	-
Total	100%	100%

Source: Calculated by authors.

When Table 19 is examined, the revenue sub-heading is reported in the first three KAMs (KAM 1st-KAM 2nd-KAM 3rd) in all four countries. Even in Turkey, revenue has been reported in the first six of all KAMs.

The Czech Republic has the least diversity in KAMs sub-headings. While revenue and goodwill are both presented in the first two orders, trade receivable was never reported even though it is related to the main activity of the companies.

In Poland, income is followed by deferred tax and inventories as sub-headings reported in the first four orders. Business mergers, intangible assets, provisions, and contingent liabilities and trade receivables sub-headings follow. Audit of financial statements for the first time is an important KAM sub-heading in Poland.

After revenue, in Romania, inventories, provisions, and trade receivables sub-headings are seen in the first three KAMs.

In Turkey, after revenue, business combinations, goodwill, provisions and contingent liabilities, and trade receivables are in the first four KAMs sub-headings, and they are followed by deferred tax, inventories, and investment properties.

The distribution of KAMs sub-headings and the order of KAMs sub-headings change according to the sub-sector and country. $H_2$is accepted according to the results.

6. Study limitations

There are three main limitations of the study. First, Turkey is compared to the first three CEE countries (Poland, Romania, and the Czech Republic) according to GDP ranking. The reports of companies in Western Europe and other European countries may give different results. Second, since the majority of companies in the BIST (Turkey) are operating in the manufacturing sector, the scope of the study is limited to the manufacturing sector. Companies in the selected countries are classified according to the classification system in Turkey to make a comparison. Third, the study examines only audit reports for the year ended 31 December 2017. Change over the years cannot be observed in the study.

7. Conclusion

In this study, a total of 318 companies were examined, including 177 companies from Turkey, 94 companies from Poland, 38 companies from Romania, and nine companies from the Czech Republic. Data on the number of KAM, the audit network, and the type of opinion was obtained from audit reports from the period that ended on 31 December 2017. The total number of sub-sectors in Turkey is nine. The sectoral classification of companies in CEE countries has been considered using the sectoral classifications made in Turkey. Accordingly, companies were brought together in five sub-sectors in Poland, six in Romania, and three in the Czech Republic. While two sub-sectors were common across all four countries, three sub-sectors were common to Poland, Romania, and Turkey, and one sub-sector common to Romania and Turkey was identified. The KAMs sub-headings with similar content and title were grouped together and all KAMs sub-headings reported in the four countries were classified in 28 different sub-headings. In addition, audit firms were classified into two groups as Big Four accounting firms and others. The general findings of the study are summarized as follows.

In the classification of the manufacturing sector:

- More than 50% of companies in the Czech Republic belong to the food, beverage, and tobacco sub-sector.
- In Poland, the "fabricated metal products, machinery and equipment" as well as the" textile, wearing apparel, and leather sub-sectors" are where most of the listed companies operate. The fewest companies operate in the "paper and paper products, printing, and publishing" sub-sector.
- More than half of the companies in Romania operate in the" fabricated metal products, machinery, and equipment" sub-sector. This sub-sector is followed by "chemicals, petroleum, rubber, and plastic products" in terms of number of companies. The smallest number of companies in Romania is in the "paper and paper products, printing, and publishing" sub-sector.
- Most of the companies in Turkey are operating in the sub-sectors of "chemicals, petroleum, rubber, and plastic products", "fabricated metal products, machinery and equipment" and "food, beverage, and tobacco". The sub-sector that has the least number of companies is "wood products including furniture".

Big Four firms carry out the audit activities of all of the companies in the Czech Republic, half of the companies in Turkey, and less than half of the companies in Romania and Poland.

The distribution of Big Four accounting firms and other firms by sub-sector and country is as follows:

- The fabricated metal products, machinery, and equipment sub-sector exists only in Turkey among all countries in which audit activities of more than half of the companies are carried out by Big Four accounting firms.
- Big Four accounting firms carry out the audit activities of most of the companies in the sub-sectors of chemicals, petroleum, rubber, and plastic products as well as printing and publishing in Poland, Romania, and Turkey.

Both hypotheses in the study are accepted. The findings related to the hypotheses in the study are as follows:

- The number of KAMs sub-headings varies according to the sub-sector by country:

In general, the highest percentages of audit reports are those that have one to two KAMs sub-headings. Only in the Czech Republic did we find audit reports in which three KAMs sub-headings were a higher percentage. In Poland, Romania, and Turkey, up to six KAMs sub-headings have been reported. The Czech Republic is the only country in which all auditor reports include a KAMs section. Romania has the highest percentage of audit reports that do not include a KAMs section. According to ISA 701, it is very unusual that an auditor cannot identify at least one key audit matter. However, there is no standard limit on the maximum number of key audit matter sub-headings. The number of KAMs can be influenced by the size and complexity of the business, the nature of the activities and the environment, and the status and facts of the audit. However, a large number of KAMs may be contrary to the idea that the matters reported are the most important matters in the audit (ISA 701, par. A.30).

The average number of KAMs sub-headings by country and sub-sector is as follows:

- The Czech Republic has the highest average number of KAMs sub-headings (four) in the "fabricated metal products machinery and equipment" sub-sector among the four countries. The average number of sub-headings in the other three countries is two.
- The Czech Republic has the highest average number of KAMs sub-headings (three) among the four countries in the "food, beverage, and tobacco" sub-sector while Turkey is the country with the lowest average number of KAMs sub-headings (1.75). The average number of KAMs sub-headings for the sub-sector in the other two countries is two.
- In the "food, beverage, and tobacco" sub-sector, the Czech Republic has the highest average number of KAMs sub-headings (three) among the four countries. The country with the least number of KAMs sub-headings in the sub-sector is Turkey (1.75). The average number of KAMs sub-headings is two in the other two countries.
- In Turkey and Romania, the sub-sector of "chemicals, petroleum, rubber, and plastic products" has the same average number of KAMs sub-headings with 1.78.In Poland, it is two.
- The "paper and paper products, printing, and publishing" sub-sector in Turkey and Romania has an average of two KAMs sub-headings while in Poland, it is 1.5.
- In the "paper and paper products, printing, and publishing" sub-sector in both Turkey and Romania, the average number of KAMs sub-headings is two, while in Poland it is 1.5.
- In the "textile, wearing apparel, and leather" sub-sector, the lowest average number of KAMs sub-headings is in Turkey while Poland has the highest.

- The lowest number of KAMs in the manufacturing sector is in Turkey, and the highest is in the Czech Republic. Turkey and Romania are very close in terms of the average number of KAMs sub-headings.
- Number of KAMs sub-headings according to Big Four accounting firms and type of audit opinion:

In the audit reports, it was determined that Big Four accounting firms report fewer KAMs than other audit firms in all countries except the Czech Republic.

All opinions in audit reports in the Czech Republic are unqualified. This may be due to the small number of companies in the Czech Republic listed on the stock exchange. Romania has the highest number of unqualified opinions while Poland has the highest number of disclaimer opinions.

Turkey and Poland are similar to each other in terms of the most reported number of KAMs sub-headings in auditors' reports given an unqualified opinion. The range of the number of KAMs sub-headings is wider in all countries in comparison with qualified opinion. In Poland, one KAMs sub-heading is disclosed in all of the auditors' reports given a qualified opinion. In Romania, the number of KAMs sub-headings ranges from two to four for a qualified opinion. While Turkey has the widest range for reports given a qualified opinion, it is also the only country to disclose no KAM for a qualified opinion. No KAM is disclosed in 23.5% of the auditors' reports given a qualified opinion in Turkey. While the range of the number of KAMs is narrow in Romania and Poland, Turkey is the most conservative country that protects the range and has a lower preference for disclosure.

The number of KAMs sub-headings changes according to the sub-sector and country, audit network, and audit opinion. H_1 is accepted according to the results.

The distribution of KAMs sub-headings and the order of sub-headings vary according to the sub-sector by country.

Among the 28 sub-headings determined in this study, the first five reported KAMs sub-headings by country in the manufacturing sector, respectively, are:

- In the Czech Republic, goodwill, other KAMs, intangible assets, provisions, and contingent liabilities.
- In Poland, other KAMs, revenue, inventories, tangible assets, business combinations, and trade receivables.
- In Romania, revenue, inventories, other KAMs, tangible assets, trade receivables, and deferred tax.
- In Turkey, revenue, trade receivables, tangible assets, inventories, deferred tax.

In the Czech Republic, trade receivables are not reported as a KAMs sub-heading, inventories are not among the first five KAMs. Revenue is the most reported KAMs sub-heading in four countries. In Turkey, trade receivables sub-heading is in second order. It can be said that the economic crisis has had an impact. In addition, it is observed that as the number of audited companies increases, the diversity of the KAMs sub-headings also increases.

In the other KAMs sub-heading, the most notable item is going concern in audit reports in both Romania and Poland. The auditor reports in which going concern is reported as a

KAMs sub-heading received a qualified opinion in Romania and an unqualified opinion in Poland. In addition, in the other KAMs sub-heading, the internal control system matter was reported more than once in both countries.

Revenue is among the most reported KAMs sub-headings in other studies. While in Turkey, revenue as a KAMs sub-heading is mostly reported in the first order, in other studies it is placed in the third or later order. The fact that revenue is an important matter in all KAMs orders can be explained by the fact that revenue is an important audit area that affects all other items in the financial statements of companies in each sector and that it is related to the main activity (KPMG, 2017).

Common KAMs sub-headings in the four countries are goodwill, provisions and contingent liabilities, and revenue in the "fabricated metal products, machinery, and equipment" sub-sector. Except for the Czech Republic, deferred tax, inventories, tangible assets, and trade receivables are common for the other three countries.

In the "food, beverage, and tobacco" sub-sector, the only common KAMs sub-heading for all four countries is revenue. Common KAMs sub-headings in Poland, Romania, and the Czech Republic are business combinations, goodwill, and tangible assets.

Business combinations, deferred tax, goodwill, and revenue are common KAMs sub-headings in "chemicals, petroleum, rubber, and plastic products" in three countries.

The common KAMs sub-heading for "paper and paper products, printing, and publishing" is revenue.

In the" textile, wearing apparel, and leather sub-sector", common sub-headings of KAMs are inventories, revenue, and tangible asset in Poland, Romania, and Turkey.

In the non-metallic mineral products sub-sector, inventories, provision and contingent liabilities, revenue, and tangible assets are common sub-headings in Romania and Turkey.

When Table 19 is examined, the sub-heading of revenue is reported in KAM 1st-2nd-3rd in all countries. Even in Turkey, revenue has been reported in every order of KAMs.

The distribution of KAMs sub-headings and the order of KAMs sub-headings change according to the sub-sector and country. H_2 is accepted according to the results.

In this study, it is stated that Big Four accounting firms are more active in the sectors "fabricated metal products, machinery, and equipment", "chemicals, petroleum, rubber, and plastic products" and "printing and publishing". In addition, it is observed that Big Four accounting firms tend to report fewer KAMs sub-headings than other firms in all four countries. The audit firms that report more KAMs sub-headings are local firms counted among other firms.

When the manufacturing sector is considered as a whole, both KAMs sub-headings and the average number of KAMs showed the most similarity in Turkey and Poland. In a more specific assessment, Turkey bears a resemblance to both Poland and Romania in the "fabricated metal production" sub-sector in terms of common issues. Both the number of companies and the number of comparable sub-sectors are low in the Czech Republic, so similarities to or differences from Turkey could not be identified.

In this study, it is determined that revenue is the most widely reported KAMs, and it is mostly reported in the first order in all countries, while goodwill and business combinations KAMs have priority in economically developed economies such as Australia, New Zealand, Switzerland, Hong Kong, and Singapore (Table 2). As a result, it can be said that the economic structure and the level of development of countries are effective in determining KAMs. The different effects of ISA adoption in the CEE region are justified by the unique economic, social, legal conditions of these countries compared to developed countries. This study shows that although KAMs sub-headings are commonly disclosed in auditors' reports due to the nature of accounting and audit standards, other KAMs sub-headings are also disclosed based on country- and firm-specific factors. The KAMs section in audit reports differentiates audit reports for one reason or another, as is the aim of the ISA 701.

It is expected that the study will contribute to the literature in two ways. First, it reveals which matters are most significant for auditors in the manufacturing sector and how these matters change according to the networks of audit firms (Big Four auditing firms and others). Second, the paper also presents similarities and differences between CEE countries and Turkey in terms of key audit matters. In addition, the findings are compared with those of countries with developed market economies. Apart from contributing to the academic literature, the study also includes findings that would benefit audit firms.

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Appendix

TABLE 19. SUB-HEADINGS IN KAMS SECTION BY COUNTRY

KAMS SUB-HEADING	CZECH REPUBLIC					POLAND						ROMANIA						TURKEY					
	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th
Audit of the financial statements for the first time						*	*																
Biological assets						*	*											*					
Borrowing cost																		*	*				
Business combinations				*		*	*	*				*	*					*	*	*	*		
Change of auditor																		*		*			
Construction contracts						*						*		*				*					
Current tax																				*	*		
Deferred tax				*		*	*	*	*			*	*			*		*	*	*			
Derivatives			*		*			*										*	*				*
Development cost			*			*	*											*	*				
Employee benefits							*												*	*	*		
Equity method investments																		*	*				
Financial investments																		*					
Financial liabilities		*					*	*			*								*	*	*	*	
Financial loans																				*			
Goodwill	*	*				*	*					*						*	*	*	*		
Intangible assets	*		*			*	*	*										*			*		

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KAMS SUB-HEADING	CZECH REPUBLIC					POLAND						ROMANIA						TURKEY					
	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th	KAM 1st	KAM 2nd	KAM 3rd	KAM 4th	KAM 5th	KAM 6th
Inventories						*	*	*	*			*	*	*				*	*	*		*	
Investment properties							*						*					*	*	*			
Other KAM	*		*	*	*	*	*	*	*			*	*	*	*		*	*	*				
Operating and finance lease																				*			
Provisions and contingent liabilities	*		*			*	*	*				*	*	*				*	*	*	*	*	
Related parties							*			*								*	*			*	
Revenue	*	*	*			*	*	*	*	*		*	*	*				*	*	*	*	*	*
Sales deductions																		*					
Tangible assets		*				*	*			*		*	*		*			*	*		*		
Trade payables													*						*	*			
Trade receivables						*	*	*				*	*	*				*	*	*	*		